

~~CONFIDENTIAL~~  
~~SECRET~~

Approved For Release 2004/06/24 : CIA-RDP79-00927A000400040001-5

OCI NO. 1511

5 November 1954

*CD/EO*

# CURRENT INTELLIGENCE WEEKLY



CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

~~CONFIDENTIAL~~  
~~SECRET~~

State Dept. review completed

Approved For Release 2004/06/24 : CIA-RDP79-00927A000400040001-5

DOCUMENT NO. 4  
NO CHANGE IN CLASS. ☐  
☐ DECLASSIFIED  
CLASS. CHANGED TO: TS S C  
NEXT REVIEW DATE: 1989  
AUTH: HR 70-2

REVIEWER:                     

25X1

25X1

THIS MATERIAL CONTAINS INFORMATION AFFECT-  
ING THE NATIONAL DEFENSE OF THE UNITED STATES  
WITHIN THE MEANING OF THE ESPIONAGE LAWS,  
TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMIS-  
SION OR REVELATION OF WHICH IN ANY MANNER TO  
AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

The Current Intelligence Weekly has been prepared prima-  
rily for the internal use of the Central Intelligence Agency.  
It does not represent a complete coverage of all current  
situations. Comments and conclusions represent the im-  
mediate appraisal of the Office of Current Intelligence.

**CONFIDENTIAL**

Approved For Release 2004/08/24 : CIA-RDP79-00927A000400040001-5

## SUMMARY OF CONTENTS

### THE SOVIET WORLD . . . . . Page 4

Satellite industrial goals--Agricultural program  
in Kazakhstan--Soviet naval visits to NATO countries  
--Chinese Red Cross visit to Japan.

### PROSPECTS FOR FRENCH RATIFICATION OF THE PARIS AGREEMENTS . . . . . Page 6

Chances are that Premier Mendes-France will get the National Assembly to approve the Paris agreements before Christmas, but the ratification process is not likely to be completed before late winter. Final ratification and effective carrying out of the agreements, moreover, may be seriously complicated by the persistent French desire for further East-West talks, which makes France dangerously vulnerable to Soviet blandishments, particularly on disarmament.

### SPECIAL JAPANESE DIET SESSION MAY LEAD TO YOSHIDA'S FALL . . . . . Page 8

The tide against Japanese prime minister Shigeru Yoshida is running stronger every day and an attempt to unseat him is expected when the Diet convenes in extraordinary session in late November. Yoshida's great personal power and astute political tactics have, however, pulled him through before and could do so again.

### IRAQ AND MIDDLE EAST DEFENSE . . . . . Page 10

Iraqi prime minister Nuri Said has indicated that he is interested in building up a Middle East defense system based on a series of bilateral treaties, but the difficulties inherent in such a task, as well as continuing Arab insistence that the Arab Collective Security Pact serve as the basis for Middle East defense, promise to make his progress slow and laborious.

**CONFIDENTIAL**

~~CONFIDENTIAL~~

Approved For Release 2004/06/24 : CIA-RDP79-00927A000400040001-5

~~SECRET~~

POSTSETTLEMENT PROSPECTS IN TRIESTE . . . . . Page 12

Although Italian-Yugoslav tensions have relaxed following the Trieste settlement, the area taken under Italian administration on 26 October still presents serious problems with security implications both for Rome and for the West generally.

NORTH KOREA SEEKS TO EXPLOIT ECONOMIC GAINS . . . . . Page 14

North Korea has made significant progress in its rehabilitation effort with substantial aid from the USSR and Communist China, but its economy still suffers from serious shortages and a lack of skills. Pyongyang has appealed, by means of tempting but unrealistic trade offers, to natural South Korean desires for unification and better living conditions, apparently in an attempt to entice Seoul into economic, and then political, co-operation on Communist terms.

SATELLITES FACE MAJOR DIFFICULTIES DUE TO COAL SHORTAGES . . . . . Page 16

Eastern European coal stocks for the winter are dangerously low. Coal shortages have already been a major factor in forcing reductions of industrial goals in East Germany, Czechoslovakia and Hungary.

~~CONFIDENTIAL~~

Approved For Release 2004/06/24 : CIA-RDP79-00927A000400040001-5

~~CONFIDENTIAL~~

## THE SOVIET WORLD

In Eastern Europe, the fulfillment report of Bulgaria's third quarter plan shows this country to be the fourth Satellite to reduce its original 1954 industrial goals because of inability to meet original targets. Bulgaria cut its initially scheduled increase from 8 to about 4 percent. East Germany had previously cut its increase from 12.6 to about 8.2 percent, Czechoslovakia from 5.1 to 2.1 percent, and Hungary from 4.5 to less than 1 percent.

The principal shortfalls have generally been in the key fuel and power sectors, primarily because of a lack of satisfactory equipment, in addition to such general factors as low worker morale and shortages of skilled personnel. Until these are overcome, the difficulties in the fuel and power industries will continue to retard the over-all industrial growth of the Satellites.

The "mechanical copying" of Soviet precedents by Satellites in their "advance toward socialism" was condemned by Hungarian party secretary Mihaly Farkas at a meeting of university activists in Budapest on 28 October. Farkas emphasized that the building of socialism in Hungary "is proceeding in an international context utterly different" from that in which the USSR first developed and that because of Soviet support "we can proceed with greater circumspection and at a steadier pace along the road of socialist construction."

Farkas' statements are similar to the doctrine, developed in the new Soviet textbook, Political Economy, that the economic policy of each Satellite country should be based on its individual historical development, the level of its production forces, and the special characteristics of its class relations.

Inside the USSR, successes in Kazakhstan during the first year of the "new lands" grain expansion program were praised by P. K. Ponomarenko in Pravda on 27 October. Ponomarenko, a high-ranking member of the Soviet hierarchy, was sent to Kazakhstan last February as the first secretary of that republic's party organization. He was undoubtedly charged with the execution of the agricultural program there, which includes approximately 60 percent of the thirty million hectares (about 74,000,000 acres) of "new lands" to be put under cultivation in the Soviet Union by 1956.

~~CONFIDENTIAL~~

~~SECRET~~

Although Ponomarenko criticized specific aspects of the new program, such as continuing shortages of housing, grain storage depots, and tractor repair shops, he added that the harvest this year was good "in the majority of oblasts" of Kazakhstan. Other reports confirm this statement, and it appears that the present situation in the "new lands" may have almost balanced the poor grain harvests in the Ukraine, which suffered from drought this summer.

In its relations with the outside world, the Soviet Union, after having exchanged naval visits with Sweden and Finland this summer, is now apparently attempting to extend this pattern to certain NATO countries.

25X1

25X1

By these visits the USSR would seek to give the impression that, for its part, there is no imminent threat of war, but at the same time would be able to show off its newer naval vessels.

In the Far East, the Communist Chinese Red Cross delegation which had been invited by the Japanese Red Cross Society to discuss the repatriation of Japanese war prisoners, arrived in Tokyo on 30 October.

The delegation includes Japanese-born Liao Cheng-chih, a member of the central committee of the Chinese Communist Party, whose presence suggests that a major aim of the visit is the promotion of Chinese propaganda in Japan. He urged that China and Japan forget the past and strengthen peaceful relations. The delegation announced the names of Japanese prisoners still held by Communist China and said that more than a thousand additional war prisoners and civilians would be repatriated by next spring.

~~SECRET~~

~~SECRET~~

## PROSPECTS FOR FRENCH RATIFICATION OF THE PARIS AGREEMENTS

Chances are that Premier Mendes-France will get the National Assembly to approve the Paris agreements before Christmas, but the ratification process is not likely to be completed before late winter. Final ratification and effective carrying out of the agreements, moreover, may be seriously complicated by the persistent French desire for further East-West talks, which makes France dangerously vulnerable to Soviet blandishments, particularly on disarmament.

The French ratification process is scheduled to start with assembly debate opening on 14 December subsequent to the premier's return from North America. This would permit assembly approval prior to the Christmas recess. The Council of the Republic, which is expected to agree with the lower house, then must act within two months.

Three major factors, however, could interfere with this schedule: the assembly's well known unpredictability; initiatives Mendes-France may take for an East-West understanding; and additional Soviet moves.

Although the preliminary negotiations in London were approved on 12 October by a comfortable majority of the assembly, the deputies were not enthusiastic and proposed a large number of reservations and conditions.

Nevertheless, a comparison of current assembly sentiment with that exhibited in the EDC vote of 30 August gives considerable grounds for optimism. The bitterly anti-EDC Gaullists voted overwhelmingly for the London agreements, as did both Socialists and Radical Socialists, who were badly divided over EDC. With the Socialists expected to join the Mendes-France government, the only major non-Communist bloc still openly hostile to Mendes-France is the Popular Republicans, and they are so committed to Western solidarity that they are hardly likely to join the Communists in opposing the accords.

Moreover, almost unanimous press support and Mendes-France's prowess in negotiations will have a strong psychological effect. Ambassador Dillon believes that growing French awareness of how distasteful the Saar agreement is to the Germans may help convince the assembly that Mendes-France "pulled off a good deal" at the Paris conference.

~~SECRET~~

**SECRET**

The ambassador believes, on the basis of Mendes-France's behavior at the Radical Socialist congress in mid-October and at the Paris conference, that the premier intends to push through assembly ratification without delay. Dillon warned Washington on 26 October, however, that strong public and parliamentary opinion favors a really serious Western effort to reach an understanding with Moscow, and indicated his doubts as to how long after assembly debate the premier could postpone making a move in this direction.

In the early October debate on his negotiations at London, Mendes-France had assured the assembly that he would seek to conduct "parallel negotiations" with the USSR while implementing the London accords. He stressed to the assembly that a three-year minimum period is in prospect before German rearmament could materialize, implying that negotiations are possible until then. In view of public sentiment, personal pressure from members of the premier's entourage and the probability of some new Soviet initiative, Mendes-France may, however, feel it expedient to call for four-power talks immediately after the assembly vote.

Soviet efforts to exploit the French desire for further talks may be expected to take more than one form. Some ostensible Soviet concession on German rearmament or an Austrian treaty is likely at a critical point before or during the French assembly's ratification debate. The disarmament proposal presented to the UN by Vyshinsky on 30 September will almost certainly be further pressed, since French vulnerability on this subject is well known.

The American delegation has already expressed concern over the close liaison maintained with the Soviet delegate on the UN disarmament commission by French delegate Jules Moch, a sincere but fanatical advocate of disarmament. Moch tends to represent both Western and Soviet positions as more flexible than other Western powers consider warranted. Furthermore, Mendes-France has also told the assembly that he attaches "the greatest importance" to the recent Soviet offer to accept the Franco-British disarmament plan of last spring as a basis for discussions, and that he feels the Russians are "realistic" enough to consider some degree of German rearmament inevitable.

In general, while Mendes-France has expressed himself as favoring negotiating with the USSR only from a position of strength, there is danger that his desire to win France a "more independent" role within the Western alliance may combine with domestic considerations to distort his judgment of the appropriate moment.

**SECRET**



SECRET

## SPECIAL JAPANESE DIET SESSION MAY LEAD TO YOSHIDA'S FALL

Shigeru Yoshida's chances of remaining prime minister of Japan are growing slimmer every day. He is faced with a growing revolt within his own party, increasingly determined opposition from the other conservatives, and a possible loss of financial support. Several conservative groups have expressed the view that, although they do not want to "stab him in the back" while he is abroad, Yoshida must leave office as soon as possible after he returns to Tokyo.

A motion of no confidence is anticipated at the Diet session which presumably will be convened around 30 November. This date would give Yoshida only about two weeks after his return to try to reorganize his power. Even his loyal deputy prime minister, Taketora Ogata, has given the impression he believes Yoshida's days are numbered.

The president of Japan's most influential economic organization recently revealed that financial and business interests are determined to create a single new conservative party. These interests' financial support is a sine qua non for political power in Japan and has been one of the major factors in Yoshida's long tenure as prime minister. Since Yoshida is considered the main obstacle to conservative unity, the moneyed interests may exert pressure which would compel him to step down. Yoshida has, however, indicated he will dissolve the Diet rather than be forced into retirement.

Meanwhile, the pro- and anti-Yoshida conservative politicians who are promoting a new party movement have tentatively agreed to a "political truce" until Yoshida returns. This action appears to be at least a temporary victory for Yoshida's forces, although the situation in the conservative camp is still in a state of flux.

A firm combination of anti-Yoshida and neutral Liberals, plus the Progressives and Japan Liberals--a minor party--would outnumber Yoshida's followers in the house by over 40 votes. Many of the Progressives and Japan Liberals have, however, hesitated to participate in the new party movement because they fear Yoshida's supporters cannot be prevented from taking over the organization.

The neutrals in the Liberal Party can play a key role. If the financial interests decide to subsidize the anti-Yoshida

SECRET

SECRET

new party movement, most of the neutrals and possibly even some of Yoshida's "loyal" stalwarts will undoubtedly join it. Business and financial interests have shown dissatisfaction with the leaders and the chaotic condition of the new party movement, but they may support it in a crisis as the best alternative to a continued split in the conservative ranks.

Yoshida's voluntary retirement would provide his opponents with a happy solution. Reports from Japanese correspondents traveling with him say, however, that the prime minister has no such intention, and a report from a member of the House of Councillors, which stated that Yoshida telephoned Ogata from London that he intends to stay on after he returns, partially confirms this.

Admittedly Japan's most powerful political leader, Yoshida will remain a formidable contender for power as long as the various conservative factions are unable to agree on a successor.

The prime minister has survived threats to his position in the past and should not be counted out prematurely. Agreement on a successor would, however, force his downfall late this month, if the successor receives strong financial support.

In any event, the leadership which emerges from the coming contest will be forced to accommodate itself to domestic and external pressures for closer relations with the Soviet Orbit nations, particularly Communist China. The need for trade and the necessity to attract domestic political support by assertions of sovereignty will compel any new leadership to take a more independent position in international relations. In making such moves, however, the new leaders would seek to avoid impairing Japan's advantageous relations with the United States.

SECRET

SECRET

## IRAQ AND MIDDLE EAST DEFENSE

Iraqi prime minister Nuri Said has indicated that he is interested in building up a Middle East defense system based on a series of bilateral treaties, but the difficulties inherent in such a task, as well as continuing Arab insistence that the Arab Collective Security Pact serve as the basis for Middle East defense, promises to make his progress slow and laborious.

Nuri has repeatedly assured Western diplomats that Iraq wants to align itself with the West in the defense of the Middle East. As is his custom, Nuri has been engaging in considerable probing and maneuvering. In line with this, he visited Cairo, London and Istanbul in September and October and discussed regional defense with American, British, French, Turkish, Egyptian and Iranian officials.

Reports on Nuri's conversations leave the impression that he tried to be all things to all men. With some officials he stressed bilateral treaties; with others he emphasized the desirability of a multilateral solution.

Despite this confusion, however, the broad outlines of Nuri's approach to Middle East defense can be determined. They emerge both from his conversations and from earlier statements. Nuri seems genuinely interested in strengthening Iraq through links with the West but he is restrained from taking forthright action by fears of internal disorders and strenuous opposition from the other Arab states.

Thus, he shies away from direct adherence to the Turkish-Pakistani pact, which the Arabs have denounced as "Western imperialism," and prefers to negotiate bilateral treaties with Syria, Pakistan, Turkey and Iran. The other Arab states are not excluded from his plan, which envisages the ultimate welding of these treaties into a multilateral system supported by Britain and the United States. Such a system in Nuri's thinking would probably have to preserve Britain's special military position in Iraq as established by the Anglo-Iraqi treaty of 1930. Nuri opposes French participation; he insists that France's record of colonialism makes it unacceptable to the Arabs.

In his conversations in both Istanbul and Karachi, Nuri emphasized that the Arabs' fear of Israeli expansion is a fact which must be considered by anyone building a defense arrangement calling for Arab participation. In line with this view,

SECRET

SECRET

Nuri appeared more interested in negotiating pacts with Syria and Pakistan than with Turkey, whose friendliness to Israel, on top of its long record of overlordship of the Arabs, fosters anti-Turkish sentiment among the Arabs.

The conversations in Istanbul apparently overcame some of Nuri's coolness toward Turkey, however, since Turkish prime minister Menderes succeeded in inducing Nuri to express willingness to sign an Iraqi-Turkish agreement along the lines of the Turkish-Pakistani pact. Menderes plans to pursue this matter on his visit to Baghdad in January.

The difficulties inherent in negotiating a series of pacts and then combining them into a single multilateral agreement are such that progress will probably be slow. Moreover, Nuri's insistence that area defense arrangements include provisions for the containment of Israel would, if not dropped, make participation by any non-Arab state unlikely.

Nuri's desire for a pact with Syria springs in part from Iraq's traditional interest in an Iraqi-Syrian union. Any move toward such a union would excite strong Saudi Arabian and Egyptian, as well as internal Syrian, opposition, and might provoke military action by Israel.

Nuri will still have to contend with the Arab fixation on the Arab defense pact, furthermore. Thus, he and Egyptian prime minister Nasr were apparently obliged to end their conversations in September on the ambiguous understanding that Nuri would proceed with defense planning but would do nothing to endanger Arab solidarity.

Nuri is genuinely interested in a policy of bilateralism rather than in returning to the proven sterility of the Arab pact, though his hopes for an Iraqi-Syrian bilateral arrangement seem unrealistic. Nuri probably views the present situation as an opportunity to make a significant contribution to the strengthening of Iraq by achieving its military alignment with the West.

SECRET

~~SECRET~~

## POSTSETTLEMENT PROSPECTS IN TRIESTE

Although Italian-Yugoslav tensions have relaxed following the Trieste settlement, the area taken under Italian administration on 26 October still presents serious problems with security implications both for Rome and for the West generally. The port of Trieste will necessarily play a part in any future NATO-Yugoslav planning for defense of the Ljubljana gap. The pro-Cominform Trieste Communist Party (PCTLT) is an important political factor and can be expected to profit from Trieste's uncertain economic future.

Despite the conciliatory statements issued by both the Italians and Yugoslavs since the settlement, mutual suspicion remains. Yugoslavia has agreed in principle to the idea of Italy's joining the Balkan Pact--a step which could provide a basis for defense planning in the Ljubljana gap area--but has expressed extreme caution about any definite commitment. A good indication of the prospects for eventual Italian-Yugoslav military co-operation may be provided at the conference, scheduled to begin in Belgrade on 10 November, to work on issues ancillary to the Trieste accord.

The local pro-Cominform Communist Party continues to be the greatest threat to political stability in the Italian-administered area. It retains a considerable potential, although it suffered a serious loss of initiative during recent months from its inability to prevent partition and from the unexpected Soviet acquiescence in the four-power agreement.

Militant Communist labor unions control most of the port workers in Trieste as well as a majority of the labor force in the city's shipyards. The PCTLT has a membership of between 6,000 and 10,000 out of a total population of 310,000, but in the 1952 administrative elections polled 17.3 percent of the total vote of 178,942.

25X1

~~SECRET~~

SECRET

Another possible course of action by the PCTLT would be to integrate the party and the labor unions it controls into their Italian counterparts. In early October Italian Communist representatives were reported in Trieste for discussions of this possibility.

The major opportunity for Communist exploitation lies in the stagnant economic condition of the city, a port cut off from its central European hinterland. Shipbuilding is the largest of the Trieste industries, but the yards, because of high costs, cannot compete advantageously with those elsewhere in Europe. Although business and industrial activity in Trieste has been estimated at three times that of any Italian city of comparable size, there has been chronic unemployment, never falling below 15,000 out of a total labor force of 107,000. When the Italians took over Zone A, this unemployment figure rose to 19,000 and is expected soon to reach 23,000 if the Italian administration dismisses all the former employees of the Allied Military Government.

The Scelba government has announced a 70-billion lire (\$112,000,000) economic support plan for Trieste, providing for shipbuilding, housing, and business loans, but the effects of this plan will probably not be felt for some time. Trieste faces a drastic economic dislocation in November and December and, though the government fund will alleviate the situation later, the basic economic problems from which the Communists can profit will remain.

SECRET

SECRET

## NORTH KOREA SEEKS TO EXPLOIT ECONOMIC GAINS

North Korea has made significant progress in its rehabilitation effort, with substantial aid from the USSR and Communist China, but its economy still suffers from serious shortages and a lack of skills. In its propaganda aimed at South Korea, the Kim Il-sung regime has stressed its own economic recovery since the truce, the aid sent by the USSR and China, and the north's progress in contrast to what it calls South Korea's "retrogression." Pyongyang has also made tempting, but unrealistic, trade offers in an apparent appeal to South Korean desires for unification and better living conditions.

North Korean premier Kim Il-sung asserted on 8 October that aid received from the Soviet bloc and Communist China since the armistice totaled goods worth approximately \$230,000,000, figured at official exchange rates. Kim said that Peiping had sent aid valued at \$130,000,000, thereby fulfilling its announced commitments for 1954. This included important quantities of transportation equipment and industrial raw materials in short supply in China, as well as consumers' goods. Soviet aid through 8 October amounted to \$75,000,000, representing 45 percent of deliveries promised for this year, according to Kim. The Soviet aid commitment consisted primarily of machinery and other capital goods, items which the disorganized North Korean economy may have been unable to absorb in the anticipated volumes. Some \$25,000,000 in aid has been sent by the European Satellites.

North Korea undeniably has made significant progress in rehabilitation compared to conditions since the armistice in July 1953. Pyongyang radio has announced 100-percent fulfillment of the North Korean plan for industrial production for the first half of 1954, with output expanded 50 percent over the first half of 1953.

Press and radio reports indicate that the January-June electric power quota was exceeded by 7 percent, due largely to the rehabilitation of the Supong (Suiho) hydroelectric station. The light industry quota was exceeded by 4 percent, and the quota for heavy industry by 5 percent. Rail freight transportation has increased by 50 percent over the same period of last year.

The economy continues, however, to suffer from serious shortages and a lack of skills which vigorous countermeasures by the government have failed to remedy. The chemical and

SECRET

~~SECRET~~

building materials industry met only 88 percent of its planned quotas for January-June 1954 because of failures in cement and fertilizer production. The Chonnae-ri cement plant completed only 20 percent of the May quota and 30 percent of the June quota. Cotton textile production is up only 2 percent over 1953 and railroad rolling stock is still below the 1949 figure. Although Communist China has sent hundreds of thousands of tons of coal to North Korea, and Pyongyang claims to have increased its domestic production, heavy propaganda emphasis has been placed on increasing coal production.

Decisions of the Labor (Communist) Party plenum and the Supreme People's Assembly earlier this year apparently reflected official concern over the economic recovery program. Last spring one economic ministry was abolished and new Ministries of Foreign Trade, Electric Power and Marine Products were created. A further cabinet reshuffle involving eight ministers with economic responsibilities took place last May.

The population decreased from 9,100,000 in 1949 to about 7,700,000 in 1954. This, coupled with the loss of manpower resulting from inductions into the armed forces and the withdrawal of Chinese Communist troops who had assisted in rehabilitation work, has caused a serious labor shortage. To alleviate the manpower shortage, Pyongyang has channeled many female laborers into industry, moved laborers to critical areas, utilized Chinese and foreign technicians, and conducted on-the-job and night classes for workers. Pyongyang has also urged the return of refugees who fled to Manchuria during hostilities. One report stated that 800 to 1,000 were returning daily in April and May.

Despite these internal economic difficulties, North Korea has been pressing attractive trade proposals on Seoul, arguing that the 38th parallel is an "unnatural, man-made obstacle" easily overcome by closer economic interchanges. Although there has been no legal trade since 1945, Pyongyang has offered to supply the south with fertilizer, ferrous metals, coal, machinery, farm implements and electric power--all of which, except for the last item, are in very short supply in North Korea.

Pyongyang apparently believes that trade proposals offering relief from the dislocations of a divided Korea will eventually entice South Korea into economic, and then political, co-operation with the north on Communist terms. The Seoul government has brushed off the offers, but there is strong sentiment among many South Koreans for trade with the north.

~~SECRET~~



Eastern European coal stocks for the winter are dangerously low. Satellite governments have been unable to expand production to meet greatly increased domestic demands and previously established trade commitments.

Coal shortages have already been a major factor in forcing reductions of industrial goals in East Germany, Czechoslovakia and Hungary. In all the major Satellites shortages will handicap industrial expansion, curtail railroad transportation, interfere with electric power production, and force civilians to spend another winter without adequate heat and electricity.

Current difficulties result primarily from manpower shortages, labor discontent with high work norms and poor working conditions, absenteeism, and a high rate of mine accidents caused by obsolete mining machinery and careless maintenance.

Poland, which produces approximately 80 percent of the Satellites' total output of hard coal, is experiencing serious difficulty in meeting greatly expanded domestic needs while exporting to other Satellites and the Soviet Union. Total production this year almost certainly will fall below the target of 93,000,000 tons. As a result, Poland has already been forced to curtail its program for expanding trade with the West.

Coal shortages will have especially serious effects in East Germany, which has not met either hard or soft coal targets during any quarter this year and which is suffering from a Polish failure to fulfill augmented delivery obligations. Because of this failure, the government has allocated all briquettes to the East German railroads to build up dangerously depleted coal stocks which are now at a postwar low. At the same time, the government has ordered all factories to use raw brown coal--a measure which will sharply intensify already critical difficulties of East German industry.

Czechoslovakia, despite reiterated appeals for higher coal output, has again fallen below target during the third quarter. In Hungary, production arrears are steadily mounting, with the consequence that the regime will almost certainly require sharply increased coal shipments from Poland and Czechoslovakia. Rumania and Albania, although they will

**CONFIDENTIAL**

Approved For Release 2004/06/24 : CIA-RDP79-00927A000400040001-5

~~SECRET~~

continue to depend partly on imports, probably will be in a less critical situation. Bulgaria presumably will mine sufficient coal to satisfy minimum domestic needs.

Shortages of coal will aggravate serious difficulties in electric power production which have resulted from inability to replace obsolete or worn-out equipment from either domestic or foreign sources. In Hungary, where the situation is most critical due to almost total dependence on thermal power, severe new controls over electric power allocations have been imposed. Poland and Czechoslovakia have already imposed restrictions on the use of power while Poland has also inaugurated a movement to reduce the quantity of coal used to generate power.

All the Satellites are offering new incentives to augment coal production. Poland, Czechoslovakia and Hungary have offered greater inducements to recruits for mining, while Poland and Rumania have promised to provide more mining machinery to end long-existing shortages. Poland has also imposed severe prison sentences on alleged production saboteurs.

The Satellites are alienating civilian populations by restricting the use of coal for home heating, although civilian consumption accounts for a relatively small amount of total coal requirements. These austerities will benefit certain favored industries, but will not avert major industrial difficulties and civilian suffering this winter. Satellite authorities appear to be relying on heavy propaganda campaigns to make austerity more palatable to their people.

The USSR is not likely to ship significant quantities of coal to the Satellites to prevent distress. In fact, in Poland the regime already has been forced to make a formal answer to rising criticism of continued coal shipments to the USSR.

~~SECRET~~

Approved For Release 2004/06/24 : CIA-RDP79-00927A000400040001-5

**CONFIDENTIAL**